



THE DANA VIEWPOINT

December 12, 2025

Dow: 48,458

Time for Some Soothsaying

Otherwise known as our predictions for 2026. We love to take credit for correct predictions and rationalize away the poor ones. This prediction exercise helps us develop a framework for thinking about the markets and the economy for the coming year. These calls don't just go into the forgotten file at the end of the year; next month we will review our 2025 predictions.

No 10% S&P correction – We had a correction of almost 19% for the S&P 500 Index in early 2025, as worries swirled around tariffs. With strong capital investment and growth in AI use cases, markets should rebound before declining 10% in 2026. An accommodative Fed and lower inflation should also support the stock market.

The S&P 493 will perform – We are not calling for the non-Magnificent 7 portion of the S&P 500 Index to outperform the Big 7, but they should do a better job of keeping up, performance wise. There will be AI uses across the 493, and their valuation levels leave room for upside performance.

Private Debt Problems – We have called for a correction here for the last two years, and it hasn't happened. It is still a case of far too much money being pumped into an area with little oversight and a high fee structure, along with low liquidity and low transparency on prices. This is usually a recipe for eventual disaster. Retail products are available that are backed by illiquid loans. Signs of repayment stress are emerging, but money flowing in still covers potential problems, until that positive flow reverses.

Inflation drifts lower – Both the dollar and commodity prices have stabilized in the second half of the year. The labor market is showing some softness. There does not seem to be a driver of inflation on the horizon, so over 2026 it should continue to drift down from around 3% to the mid to low 2% range.

Fed about done – The economy has demonstrated that it can withstand rates above 3%, so the Fed Funds rate should stay between 3% and 4% through the year. The two-year Treasury yield is near the Fed Funds rate, indicating that little change is expected from here in short-term rates. Rates moving either significantly higher (inflation) or significantly lower (recession) would mean there is a problem.

No recession – We probably should have put this call up in the #1 spot, since it is the main nemesis of capital markets. Over the last few decades, it seems as if large companies are more conservative in their production and investment considerations, avoiding some of the boom/bust cycles that have affected markets and employment in the past.

Little movement in rates – Mainly because of the previous three predictions, we would expect little movement in the Treasury yield curve in 2026. Contained inflation and no recession should anchor the long end of the yield curve, and limited Fed rate changes should anchor the short end of the yield curve.

(CONTINUED ON REVERSE SIDE)

GDP will strengthen – GDP growth will be about 2% in 2025, factoring in import gyrations due to tariffs. GDP was actually negative in the second quarter of 2025. We expect a reasonably strong economy in 2026. With decent productivity gains, partially due to new AI technology and investment, we expect GDP will be closer to 3% in 2026.

Job Growth Sluggish – It is difficult to read because of the lack of data and delays due to the government shutdown, but employment growth has slowed in the second half of 2025. We would expect some rebound in 2026, but not back to the 200K or higher job growth that is representative of a very strong economy. We would expect growth to average 100-150K per month. Enough to keep the economy growing without inflation and allow reasonably strong growth in productivity.

U.S. stock market outperforms Europe – We think the outperformance of the European stock markets was an anomaly this year. The weaker dollar boosted returns for Americans investing in Europe. Investors in European equities still face the problems of a bloated bureaucracy, high taxes, and poor demographics (an aged population). These problems have no easy solutions. Investors in U.S. equities should again be rewarded for operating in a more favorable investing climate.

Warren Buffet, likely the greatest investor of our time, retires at the end of 2025. Here are two of the many, many, insightful and pithy things he has said over the years:

“Risk comes from not knowing what you’re doing.”

“Price is what you pay, value is what you get.”

Thank you for the opportunity to work together and we wish you a healthy, happy, and prosperous New Year!

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